Quoniam Investment Grade Credit Factor Strategy

Capture the return potential of corporate bonds – with a systematic approach

Quoniam Investment Grade Credit Factor Strategy

By using a variety of return sources, a corporate bond portfolio can achieve consistent outperformance against the benchmark. Quoniam's multi-factor approach not only offers broad diversification, but also minimises drawdowns for investors.

High-quality corporate bonds offer investors positive interest income and additional yield compared to government bonds with manageable credit risks. However, in order to further diversify the bond portfolio, it may make sense for investors to add a quantitative credit approach.

The advantage: Factor strategies can unlock hidden sources of return and risk that traditional, discretionary strategies often cannot. In addition, factor strategies are not only highly transparent, but also cost-effective. They therefore offer institutional investors, such as pension funds and insurance companies, a way to diversify a core portfolio away from index-tracking and fundamental strategies.

The Quoniam solution

Our investment grade credit strategies use scientifically proven sources of return. We use a model-driven, quantitative process that can consistently and objectively calculate factors for all companies in the market. Specifically, we combine the value, momentum and carry factors. Over many years of research, these factors have proven to be statistically and economically significant indicators of alpha. They therefore form the basis of our forecasts.

- **Value:** Undervalued, inexpensive bonds perform better than overvalued or expensive ones.
- **Momentum:** Bonds of companies with positive stock price momentum outperform those of companies with weak momentum.
- **Carry:** Bonds with higher spreads and a steeper yield curve generate higher returns.

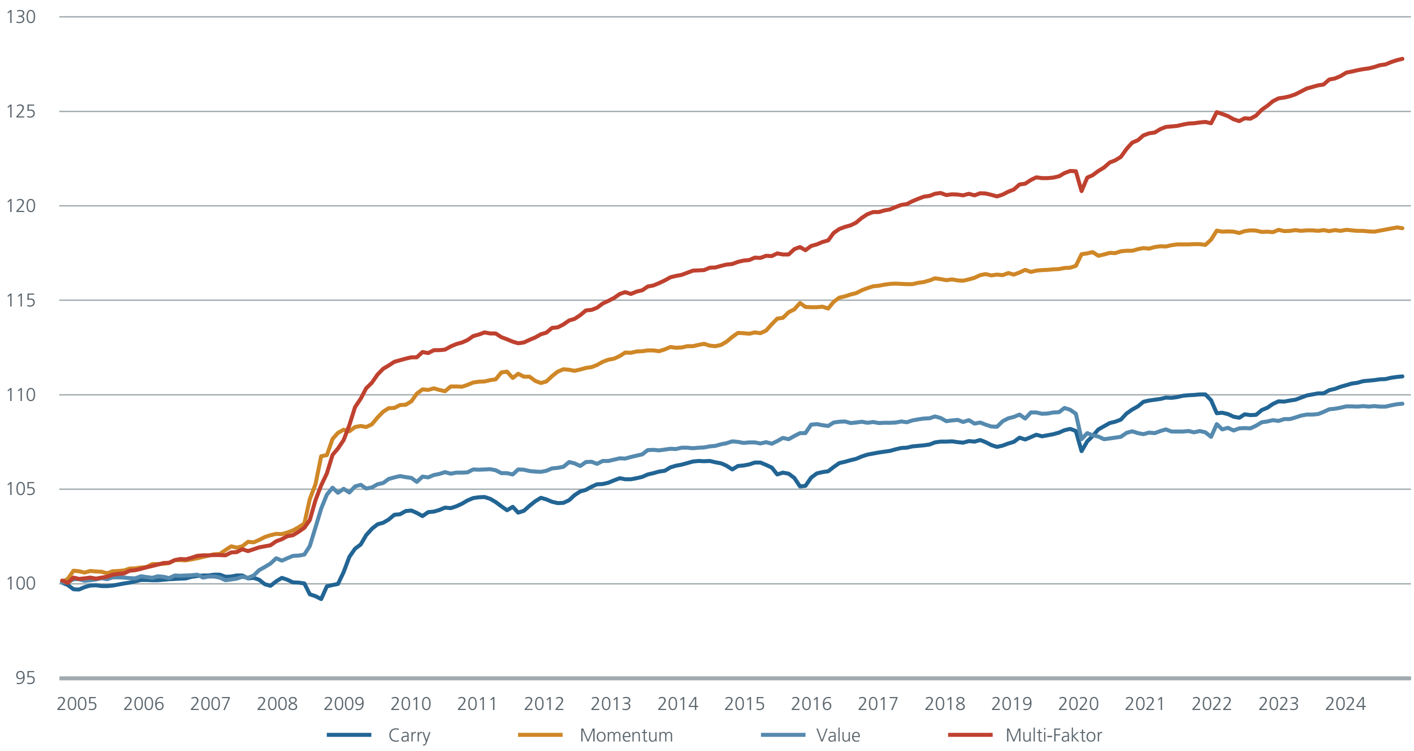
However, as the individual factors perform differently in different cycles, it makes sense to combine them into a multi-factor signal as part of a forecasting process. This approach can tap into existing premiums in the market in a more stable way than individual signals.

Our philosophy and multi-factor approach to corporate bonds have the following advantages:

- By analysing the entire global credit universe, we are able to systematically identify opportunities that are not covered in fundamental approaches.
- The returns generated by our approach have a low correlation with the alphas of traditional fundamental strategies, providing a source of diversification.
- Our approach systematically captures the factor premia available in the market, adding consistent value and high risk-adjusted alphas.

Factor strategies can unlock hidden sources of return and risk that traditional, discretionary strategies often cannot.

Global IG credit factor alpha



Global IG credit top 20% portfolio: Relative performance per factor vs global senior IG benchmark for the period 31.12.2004 to 31.12.2024.
Source: Quoniam Asset Management GmbH

Our approach:

- **Factor-based spread valuation:** Factors are our measure of a bond's attractiveness.
- **Systematic portfolio construction:** We maximise the net return of the portfolio per unit of risk.
- **Risk modelling:** Risk models complement our return projections to reflect the risk of bonds within the portfolio structure and to avoid rating downgrades.

Our systematic process analyses 15,000 corporate bonds, identifying the return and risk drivers for each security using numerous data points.

Advantages of the Quoniam IG Credit Factor approach over traditional fundamental strategies:

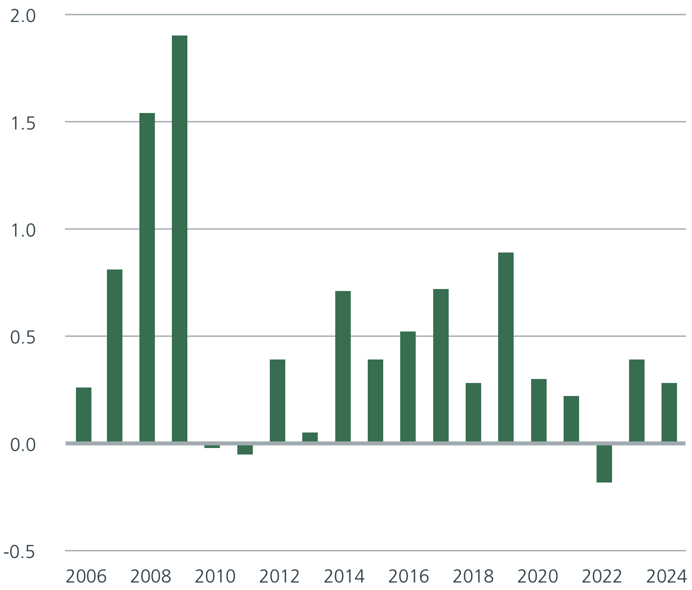
- **Larger investment universe:** Factor approaches use quantitative analysis methods and can therefore efficiently analyse a significantly larger investment universe.
- Another characteristic of a factor portfolio is the **large number of small, active positions,** which leads to a high degree of diversification and a low tracking error.
- **Performance drivers:** While fundamental approaches often generate returns through an active carry strategy, Quoniam focuses more on returns from the value and momentum factors. Although carry delivers added value, it often records strong drawdowns and therefore has a lower weighting in our multi-factor model.

Investors can benefit from the diversification advantages by adding a multi-factor strategy to their fundamentally managed credit allocation. Over time, this will lead to more stable overall credit portfolio performance and open up new sources of outperformance.

Track record

Our track records for global and euro investment grade corporate bonds show stable outperformance against the respective benchmark.

Euro IG credit strategy: alpha versus benchmark



Euro credit performance: reaping systematic factor premia 31.12.2005–30.04.2025
Source: Quoniam Asset Management GmbH

Why Quoniam?

We have more than 20 years of experience in managing corporate bonds with a systematic factor approach. Our models and processes reflect expertise from various market cycles, including the global financial crisis of 2007/2008 and the Corona crisis of 2020, making our portfolios optimally equipped for any market situation. We currently manage around 8.0 billion euros in bond portfolios for our clients (as per May 2025).

Thanks to our technological know-how in data collection and processing, we can make the best possible use of market liquidity and trade very cost-effectively. Our automated processes calculate the transaction costs and available liquidity of each bond in real time.

Our approach is also transferable to individual solutions thanks to the automated platform, in terms of benchmarks, loss budgets, ratings, duration and investment universe. In addition, the credit strategy can be flexibly adapted to individual ESG requirements.

Your Contact

Quoniam Asset Management GmbH
Westhafen Tower · Westhafenplatz 1
60327 Frankfurt am Main

T +49 69 74 384 0
www.quoniam.com
info@quoniam.com

A member of Union Investment Group

Author

Dr Harald Henke
Executive Director
Head of Fixed Income

Disclaimer

The use of investment services as well as investments in financial instruments are conjoint with risks.
For more information and guidance on opportunities and risks, please visit www.quoniam.com/riskstatement